

Mateusz Smolaga

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(University of Szczecin)

Asian Development Bank and Asian Infrastructure Investment Bank – is cooperation possible?

Abstract

The Asian Development Bank (ADB) is a well-known financial institution operating in the Asia-Pacific region since 1966. The rise of this multilateral organization was sponsored mainly by Japan, for which, no doubt, it is still an important instrument of external policy. However, nowadays the ADB constitutes 67 members (48 regional and 19 non-regional), including PR China. With an impressive budget (ca. \$20 billion) and focus areas ranging from social development to information technologies, the ADB is an important source of development funding.

The Asian Infrastructure Investment Bank (AIIB) is a rather new initiative, only opening up for business in January 2016. Based in Beijing, it is a multilateral organization comprising 57 founding members (37 regional members and 20 non-regional partners), excluding Japan and the United States. The creation of the AIIB is a reaction to the fiasco of the transformation of global financial institutions like the International Monetary Fund and the World Bank Group. China's intentions in initiating the AIIB are clearly something other than altruism. It might be seen as part of a win-win economic cooperation strategy that could benefit both regional and national development processes. Like the ADB, the AIIB focuses on the development of infrastructure and other productive sectors in the Asia-Pacific region.

The question is, should we anticipate strong rivalry between these two institutions, as political realism would suggest, or will the ADB and the AIIB find a way to offer their best to the Asia-Pacific countries without any major conflict?

Key words: ADB, AIIB, development banks, Asia.

Introduction

The very idea of setting up a new multilateral financial institution was met with scepticism and harsh criticism from the outset. This was followed by a negative media campaign launched mainly by the United States (US) and Japan. Despite these attempts to suppress the Chinese proposal, various other countries, including some of Washington's and Tokyo's closest partners, were convinced of the merits of the newly proposed initiative. Although still in its infancy, the Asian Infrastructure Investment Bank, hereafter referred to as the AIIB, will almost certainly play an increasingly important role, not only in Asia, but also in the broader global context.

The justification for such strong opposition towards the creation of the AIIB was based on concerns over the perceived additional risk to the already established Asian Development Bank (ADB). The ADB and the AIIB are both international organizations with the mission of promoting social and economic development in Asia. This is done through capital lending to member countries. The former institution is often described as being dominated by the US and Japan, while the latter is presented in Western media as an instrument of Chinese foreign policy. This allowed alarmist observers to paint the picture as one of the AIIB threatening ADB's position by creating political and economic alternatives for various Asian nations. Arguably, this negative analysis is far too narrow in investigating the possibilities of further fruitful cooperation between these two entities.

The aim of the paper is to examine the feasibility of successful cooperation between the AIIB and the ADB. This examination needs to ask:

1. Are there any major differences between the ADB and the AIIB in terms of strategic goals, membership, governance, and financial capabilities that would make cooperation impossible?
2. Is conflict of interests inevitable? If not, what is the whole spectrum of possible relationship models between both organizations?
3. Do the first months of the AIIB's existence prove initial criticism to be accurate or rather far-fetched?

The main part of the text is divided into three sections. The first one is a basic comparative analysis of both banks. The second identifies and explains possible scenarios of ADB–AIIB relationship. The final section takes the realistic view of the actual ongoing relationship between the two

banks and how this differs from the projections of the concerned voices raised at the very thought of AIIB's arrival on the scene. Having considered the various possible scenarios, the author presents his opinion of the most likely outcome as to the interaction between the two banks in the future.

The paper identifies six logically possible scenarios of future ADB–AIIB relations, listed in order of probability. They are presented on a spectrum of possible outcomes ranging from the absolutely negative, “Sino-Japanese full scale rivalry via AIIB–ADB confrontation,” to the idealistic, “Extensive cooperation and coordination.” The advantages and disadvantages for the various players involved are presented, including non-regional and local. Based on their current economic and political interests, non-regional actors could either stimulate ADB–AIIB cooperation, or use their resources and political clout to escalate regional conflict.

As the AIIB started its operations in January 2016 there is not a sufficient number of sources covering the real ADB–AIIB interactions or even comparing these two banks. The existing texts are mainly press articles speculating on the nature of the Chinese proposal and its influence on regional geopolitics in Asia. This is why this analysis is based mainly on information shared by both organizations in the form of reports, official documents and posts on their websites. This sort of data is far from conclusive, but it helps to capture current processes and real intentions of decision makers, not just opinions of other authors. Future analyses will allow the formulation of more sophisticated and further developed conclusions that will be based on the long term experience of ADB–AIIB relations and hard data on the financial activity of the latter. This article offers a quick snapshot of both institutions, as they stand at the beginning of their relationship. It helps to compare these organizations and realize that, contrary to alarmist calls from some media, rivalry is just one option on offer to their main shareholders. The choice between further cooperation and/or hostility remains in the hands of the nations involved, rather than media and political commentators.

1. ADB and AIIB – the comparison

Even a cursory glance at the backgrounds of the ADB and the AIIB offers some indications as to the future relationship between these two organizations. To what extent might existing differences between the ADB and the AIIB hinder their cooperation?

Both institutions are multilateral development banks with very similar objectives. The ADB's aim is to promote social and economic development through the provision of loans, technical assistance, grants, and equity investments, while the AIIB focuses on "the development of infrastructure and other productive sectors in Asia" (ADB's website; AIIB's website; Nelson 2015, pp. 3, 17).

The comparison of these banks is undoubtedly complicated. Having only opened for business in January 2016, the AIIB could be considered the "New kid on the block", when compared to the ADB ('The old guard'), which has been in operation since 1966, with traditional relations all across Asia and an established position within the international system of development assistance (Haas 1974, pp. 281–296; AIIB's website; Wildau & Mitchell 2016).

The ADB constitutes 67 members (48 regional and 19 non-regional), including the People's Republic of China (PRC), compared to the AIIB with 57 founding members (37 regional members and 20 non-regional partners), excluding Japan and the US. As of the end of June 2016, 48 Prospective Founding Members had confirmed their will to join the AIIB by ratifying the Articles of Agreement. The eight remaining countries have until the end of 2016 to ratify (ADB's website; Asian Development Bank 2015b; AIIB's website; Berwin, Leighton & Paisner 2016, p. 1; Xinhua News Agency 2016b).¹

Several ADB members are noticeable by their absence from the AIIB, some perhaps more surprising than others: the US, Japan, and Canada, all important ADB shareholders, have shown no interest in joining, for obvious political reasons. Taiwan was refused membership because of its diplomatic rivalry with the PRC. Hong Kong SAR has expressed an interest in joining, but has been put on hold due to its non-state status. We can see the focus of the AIIB being Asia rather than Asia-Pacific, when we note the absence of 13 Pacific states from its membership.

Looking from another perspective, we can see several founding members of the AIIB are not members of the ADB: Brazil, Russia, and South Africa from the BRICS block, as well as various players from the Middle East, and, perhaps more surprisingly, Iceland, Malta, and Poland.

¹ Brazil, Egypt, Iran, Italy, Malaysia, the Philippines, South Africa, Spain, and Uzbekistan.

There are no major, structural differences between the ADB and the AIIB, both adopting the templates of the World Bank:

- 1) Board of Governors – composed of representatives of each member state;
- 2) Board of Directors – elected by the Board of Governors;
- 3) Senior Management – President, vice-Presidents and other top executives.

The international nature of the management structure should prevent the dominance of any single state within both institutions and allow for a more business oriented style of management and communication (ADB's website; 2015 Annual Report: Asian Development Bank 2015a, pp. 4–5; Asian Development Bank 2016; AIIB's website; Berwin, Leighton & Paisner 2016, pp. 1–2; Morris 2015; Qing 2015).

ADB's capital is USD 147 billion compared to AIIB's USD 100 billion of original authorized capital stock (sum of all shares).² Both institutions want to do business within sovereign and non-sovereign sectors (the vast majority of the ADB's activity is in government loans and logic suggests that the same will apply to the AIIB). Despite this similarity there is an enormous disparity in the scale of financial activity of each organization. In 2015 the ADB approved USD 27.17 billion of financial operations, mainly in the form of loans, but also grants, equity investments, guarantees, technical assistance, and co-financing (including trust funds). During its first six months in operation the AIIB had signed up to just five projects (Asian Development Bank 2015a, pp. 3, 6–7; Asian Infrastructure Investment Bank 2015, art. 3; AIIB's website; Middleton 2016).

The total value of these projects is USD 2.66 billion, with AIIB's contribution being USD 0.66 billion. The AIIB has expressed its intention to raise its level of involvement to USD 10–15 billion per year and only time will tell if this ambition can be realized. Three out of five of the existing projects are to be co-financed by other development banks, including the ADB who will take the leading role in administration. It is unclear whether the AIIB intends to use these relationships as part of a short term strategy to compete with, even possibly replacing, the ADB,

² As of 26th of June 2016 the AIIB has gathered capital subscriptions totaling USD 85.91 billion, the remaining capital will be guaranteed as soon as the other Prospective 8 Founding Members ratify the AIIB's Articles of Agreement (Asian Infrastructure Investment Bank 2016b).

at some point in the future. Alternatively, it could use these joint ventures as part of a longer term plan to improve, strengthen and reduce the cost of the existing development framework in Asia. The co-financing and cooperation between the ADB and the AIIB has not only been shown to be possible, but has already started. The continued success or failure of this depends on both banks' main shareholders' ongoing assessment. Almost certainly, it will take years for the AIIB to equal the financial operating capabilities of the ADB. The more established ADB can be rest assured that any 'threat' posed by the development and growth of the AIIB is a long way off.

Table 1. AIIB's projects as of end of June 2016

#	Title	Total Value (USD)	AIIB's contribution (USD)	Co-financing institution
1.	<i>Indonesia: National Shum Upgrading Project</i>	1.74 billion	216.50 million	World Bank
2.	<i>Bangladesh: Power Distribution System Upgrade and Expansion Project</i>	262.29 million	165 million	none
3.	<i>Tajikistan: Dushanbe-Uzbekistan Border Road Improvement Project</i>	105.90 million	27.5 million	European Bank for Reconstruction and Development
4.	<i>Pakistan: National Motorway M-4 (Shorkot-Khanewal Section) Project</i>	273 million	100 million	ADB and the United Kingdom's Department for International Development
5.	<i>India: Transmission System Strengthening Project – Tamil Nadu</i>	282.9 million	150 million	none

Source: AIIB's website.

Both organizations share similar goals and their focus areas are almost parallel.

Table 2. The ADB's and AIIB's focus areas

Asian Development Bank	Asian Infrastructure Investment Bank
<p>Main: infrastructure (water, energy, transport, urban development, information and communications technology), environment, regional cooperation and integration, finance sector development and education</p> <p>Additional: health, agriculture and natural resources, public sector management</p>	<p>infrastructure and other productive sectors in Asia, including: energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development, logistics</p>

Source: ADB's website; Asian Development Bank 2015a, pp. 10–15; AIIB's website; Asian Development Bank Xinhua News Agency 2016b.

Such a high degree of convergence may prove to be a help or a hindrance for the cooperation between the two banks moving forward.

The division of voting power within the AIIB is one of the most contentious issues under discussion. Under the existing voting system the PRC have 29.9% of voting power within the organization. Once all 57 Founding Members have ratified the AIIB's Articles of Agreement, the PRC's voting power will settle at around 26%. Even with this sharp reduction China will still maintain a de facto veto power in a limited number of Super Majority vote decisions. This does not mean that the PRC will be able to unilaterally impose any decisions on the AIIB's operations and bank members' status. As in other multilateral banks, even main shareholders have to persuade other states to accept their ideas and create a coalition before voting takes place. When we compare the PRC's position within the AIIB to other influential members (India's current/projected voting power is 8.63%/7.51%; Russia 6.81%/5.93%; Germany 4.77%/4.15%, and South Korea 4.03%/3.5%), Beijing's advantage is evident. Even BRICS countries, voting together (around 43% of cumulated voting power) are not going to be strong enough to steer AIIB's operations on their own (AIIB's Asian Infrastructure Investment Bank 2016b; Morris & Higashikokubaru 2015).

This could be compared with the governance of the ADB where the top five members by voting power are: Japan 12.8%, the US 12.71%, the PRC 5.46%, India 5.37%, and Australia 4.93%. Basically, the PRC's influence within the AIIB's structures is equal to US-Japanese dominance over the ADB. The votes of Washington and Tokyo supported by Australia, New

Zealand, and the ADB's European members are enough to take a binding decision (Asian Development Bank 2015b).

Ironically, the easiest way to decrease the power of the PRC within the AIIB's structures would be the joining of the bank by Japan and/or the US. Their accession would lead to a significant reduction in the existing voting power of current shareholders, i.e. would neutralize the Chinese *de facto* veto power. However this opportunity has not been taken by the Japanese and US governments.

Clear similarities, in terms of their statutory goals, management structures, focus areas, and governance systems, will undoubtedly influence the future relations of the ADB and AIIB. These factors could potentially lead towards rivalry or, in a more optimistic scenario, closer collaboration between these two organizations. Differences also exist in terms of experience, financial capabilities and membership. The limited experience of the AIIB will make expressions of rivalry unlikely, at the moment. The membership of each bank will support projects in keeping with their broader geopolitical and geoeconomical visions. This might push the ADB towards the Trans-Pacific Partnership and the AIIB to the One Belt, One Road initiative.

2. Possible scenarios for the ADB–AIIB relationship

The future of ADB-AIIB relations are not written in stone. This relationship will fall into one of three broad categories: out and out rivalry; neutrality; and maximum cooperation. The character of the relationship will be defined by each player's level of commitment, their attitude towards and acceptance of structures put in place to achieve agreed mutual goals.

Hostility between the two institutions could take the form of absolute rivalry, or some less exaggerated form of non-cooperation and competition. **Neutrality** could result from calculated decision to leave rivalry aside and simply concentrating on fulfilling economic tasks, or even as an unintentional outcome of doing business (assisting Asian countries) in a different way, leaving less incentive for interference. Finally, **cooperation** between the ADB and the AIIB does not necessitate full partnership and complete coordination. It can also be expressed through technical dialogue and limited joint initiatives in areas of common interest, while at the same time allowing for the autonomy of each bank.

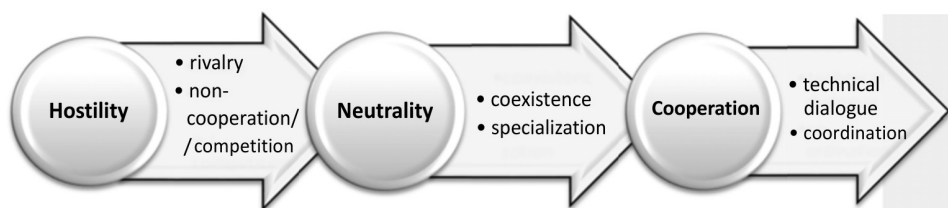


Figure 1. Possible ADB-AIIB relationship patterns and its subtypes

Source: based on author's estimation.

Out of these broad categories we can imagine six possible scenarios, as presented below. They are presented on the axis of possible outcomes from the most pessimistic 'Sino-Japanese full scale rivalry via ADB-AIIB confrontation' to the extremely idealistic 'Extensive cooperation and coordination'.

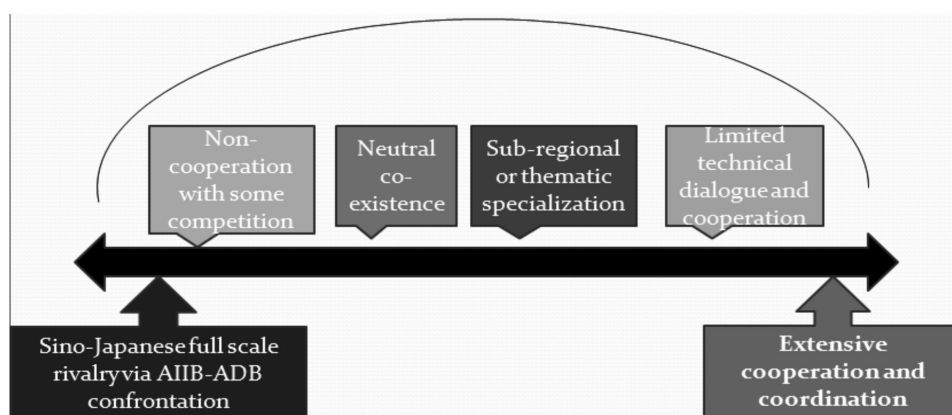


Figure 2. Spectrum of possible outcomes

Source: based on author's estimation.

How the 'Sino-Japanese full scale rivalry via AIIB-ADB confrontation' scenario might play out? Both financial institutions set extremely high levels of credit in competition for business and reduced their function to instruments of foreign policy. The setting of strict eligibility criteria for potential borrowers, restricting access to funds from the 'rival' institution, would be used for political gains. This 'politics over economics' approach would have a direct negative effect on the quality of services provided. This could escalate regional rivalry and exacerbate existing tensions within the global South.

Table 3. Pros and cons of the ‘Sino-Japanese full scale rivalry via AIIB–ADB confrontation’

	Pros	Cons
Donors (banks and main shareholders)	Powerful enhancement of foreign policies	Substantial financial costs; strong international criticism
Recipients	Rapid inflow of additional capital	Regional political destabilization
Non-regional parties	Maintenance of the West’s central position in the World economy	Risk of future loss of trade options

Source: based on author’s estimation.

There are at least three situations that could trigger this scenario:

- an extreme escalation of political tension between the PRC and Japan – both countries undoubtedly have influence over the AIIB and ADB respectively. The severe crisis in their mutual political relations would probably result in the decision to use all bilateral and multilateral channels, including these financial institutions, to gain the support of other Asian states and diminish the political clout of the other side;
- a real threat to main shareholders’ geo-economic projects (One Belt, One Road initiative/Trans-Pacific Partnership) – similar to the reaction in the case of a political crisis, the strategy of full scale rivalry using all available means could be introduced by Japan and the PRC due to some perceived serious economic threat. Such dangerous conditions might be brought about by one of these regional powers attempting to convince other Asian states to be bound only to his existing trade agreements, thereby putting the success of any alternative venture at great risk;
- extreme competition for scarce resources – the future possibility of crucial resources becoming less and less available might result in both development banks morphing into structures to gain access to these assets. If this happened the scenario of harsh rivalry would very likely follow.

The second possible scenario, ‘Non-cooperation with some competition’, would involve the relationship between the AIIB and ADB being redescribed as a competition rather than a fierce rivalry. This more relaxed relationship would still involve a significant degree of competition and reluctance to develop joint initiatives and principals. This reluctance to cooperate because of political differences could result in wasteful

duplication of energy and resources in attempts to achieve the same economic ends. A reduction in the rivalry of this scenario will allow for recipients to access funds from both banks, but the norms and procedures of each institution would differ, resulting in high transaction costs for the borrowing nations. Each bank would continue to ask its members for funds to increase its capital stock to gain a comparative advantage over its 'rival'.

Table 4. Pros and cons of the 'Non-cooperation with some competition'

	Pros	Cons
Donors (banks and main shareholders)	Moderate support for foreign policy goals and economic strategies	Some international criticism
Recipients	Easy and stable access to additional sources of capital	Lack of coordination of national and regional investments
Non-regional parties	Additional capital subscriptions and special funds as a means of evidencing bilateral profits	Incompatibility of development policies in Asia

Source: based on author's estimation.

Potential causes for the level of competition suggested in this scenario are:

- a reduction in the perceived influence of the ADB within the region – if the first years of the AIIB's operations resulted in reducing the position and general impact of the ADB, the latter would surely reject any cooperation with the newcomer and move towards political and economic competition;
- the perception, over time, of the AIIB as ineffective – in case of a discontent of major AIIB stakeholders about the bank's efforts to achieve set goals and visions, the bank's board would have to implement slightly more 'aggressive' market strategies to improve its effectiveness in maintaining and developing its political influence;
- worsening political tensions over the regional economy – should efforts to stimulate the local Asian economy be hit by another major economic crisis, a great demand for both capital flows and political leadership would inevitably follow. In such circumstances each individual bank would have to undertake emergency measures to try to save the economies of their borrowing nations, as there would be insufficient time to negotiate joint programs and procedures. At the first signs of any

economic growth both organizations would argue about its own crucial role in getting the regional economy ‘back on track’, claiming that its role had been more productive than its rival’s;

- absolute incompatibility of strategic goals of China and Japan – the likelihood of growing competition between these two banks is directly related to the yawning gap between the foreign policies of their two major funders.

The ‘Neutral coexistence’ is more of an ‘economics over politics’ scenario, based on an assumption that both organizations would concentrate on their development goals rather than furthering any purely political agenda. Acting individually, and without interfering with the other, each bank accepts the absence of common interest, but does not allow this difference to fuel any rivalry. This stabilizes the volume of credit allowing both institutions to concentrate on quality over quantity of service. The differences in norms and procedures between the ADB and AIIB still results in high transaction costs for borrowing nations.

Table 5. Pros and cons of the ‘Neutral coexistence’

	Pros	Cons
Donors (banks and main shareholders)	Opportunity to concentrate on grand geo-economic projects	Reduction in effectiveness of support for foreign policies
Recipients	Regional stability	Lack of investment coordination; reduction in capital available
Non-regional parties	Stability crucial for import/export; constant incentives for global GDP growth	Less opportunities (no pretext) for political interference into Asian affairs

Source: based on author’s estimation.

The scenario of ‘Neutral coexistence’ would be a direct consequence of such factors as:

- concern over the projected cost of the ADB–AIIB rivalry as per the previous two scenarios – there is no doubt that rivalry and competition are costly options, as they involve a significant volume of credit and the need for additional capital subscriptions from bank shareholders. Therefore, it is more likely that the ministries of finance, and other decision makers, are going to support neutrality rather than any ADB–AIIB confrontation;

- realization that a pragmatic approach will best achieve long-term strategic goals – assuming that the real agenda of each bank is not to work in direct opposition to its counterpart, it is going to be cheaper and safer, at least up to certain point, to avoid direct disputes;

- recognition by member nations that the long term economic goals of the ADB and AIIB are not mutually exclusive – the future strategies of both organizations are dependent on their shareholders' perception of the global situation and how the operation of each bank can minimize threats to their individual economies. Each bank's ability to achieve this without interfering in the business of the other institution, will have a direct effect in the avoidance of any areas of conflict.

The scenario of 'Sub-regional or thematic specialization' suggests that a conflict of interest can also be avoided by the banks choosing separate areas of specialization; this could be geographical specialization or a difference in focus areas. In each case both banks would work towards separate economic goals determined by major stakeholders, any foreign policy goals being noticeable by their absence. While a steady volume of credit and quality of service would contribute towards a pro-effectiveness agenda, the lack of any shared procedures would still prove to be a nuisance for borrowing nations.

Table 6. Pros and cons of the 'Sub-regional or thematic specialization'

	Pros	Cons
Donors (banks and main shareholders)	Precision in designing solutions vital to the success of grand geo-economic projects	Very limited support for current foreign policies of Japan and China
Recipients	Improvement in development cooperation quality	Some recipient countries may feel neglected
Non-regional parties	Availability of reliable instruments through which donors can offer aid	Limitation of political influence in Asian affairs

Source: based on author's estimation.

Reasons for this scenario becoming a reality may include:

- an apparent divergence of the practical involvement of each bank based on differences in chosen priorities – the recognition that actual flows of money prove both institutions are, in fact, interested in tackling different issues, or concentrating their efforts in different parts of Asia could be seen as a the implementation of a neutral strategy in their mutual relations;

- perceived improvement in effectiveness brought about by division of labour – different specializations might occur as a consequence of general agreement between international development actors and result in an increase in the effectiveness of ongoing social and economic cooperation;
- preference for pragmatism over the pursuit of short term goals – the notion that the member countries of each bank can benefit more from the banks’ more standard economic activities than embarking on any impulsive and potentially destabilizing political struggles for a position within the region.

The next scenario, ‘Limited technical dialogue and cooperation’, is a move towards ‘full cooperation’, while limiting shared activities in technical dialogue and co-financing agreements. In this case several joint workshops, conferences, agreements, other forms of exchange of knowledge would take place. Both banks would provide each other with analytical support, technical consultations and a flow of information. Frequent negotiations would allow co-financing of various projects. The trilateral nature of such cooperation would enable all parties to exchange resources, experience and ideas, enriching both banks’ services, while expanding the AIIB’s capabilities. The ADB would gain some influence in

Table 7. Pros and cons of ‘Limited technical dialogue and cooperation’

	Pros	Cons
Donors (banks and main shareholders)	Stability, opportunity to learn and improve own services	Possibility of skewing the original purpose and character of certain crucial projects as a result of dialogue and negotiations; increased limitations of support for shareholder foreign policy
Recipients	Coherent and more effective assistance; stability; substantial decrease of transaction costs	Significant delays in trilateral negotiations
Non-regional parties	Economic stability and a degree of influence over ongoing investment plans; stimulation of global GDP	Potential long term loss of influence due to increasingly successful cooperation between Asian nations

Source: based on author’s estimation.

the shaping of the AIIB's activities and standards, but both organizations would still remain independent in the field of strategic goals and core operations. Obviously, this sort of relationship between the ADB and AIIB would involve their engagement in further extensive dialogue on the effectiveness of their financial activity.

The above scenario could be triggered by:

- recognition by all parties of the potential gains in moving away from more competitive attitudes towards a more cooperative approach to business – to achieve that, shareholders of both institutions need to work towards building mutual trust. Certainly, this shift would also require time for all parties to closely monitor the development of both banks' activities and make several serious assessments to weigh up mutual benefits or otherwise before reaching a conclusion of adopting this model or not;
- the AIIB's strategy to counter initial criticisms and create a new and more positive image on the world stage – this provides the opportunity for the AIIB to quickly allay concerns expressed by its critics, proving its reliability as a serious development actor;
- the ADB's hope to avoid criticism of political motivation in its perceived reluctance to accept the AIIB as a regional actor – the perception of 'the old financial guard demonstrating an irrational 'knee-jerk' reaction to the 'new kids on the block' is something the ADB might like to avoid;
- an easing of Sino-Japanese political tensions – undoubtedly, the removal of stumbling blocks between the major shareholders, or at least to the point at which they could be excluded from any multilateral development negotiations, would go a long way to facilitating long-term fruitful ADB–AIIB cooperation.

In the final scenario, called 'Extensive cooperation and coordination', we would expect to see intensive dialogue, leading to a shared stance on priorities, agreement on what each bank wants to achieve and how they will cooperate to meet these objectives. This might also promote the idea of a new body whose function would be to coordinate activities and establish norms, standards, and procedures, to be adopted by both banks (as was done in the case of the Coordination Group of Arab and OPEC aid institutions). This body might also provide a platform for further dialogue between Asian Pacific emerging donors (the PRC, India, Taiwan, Thailand, Singapore) and OECD Development Assistance Committee members active in the region (Japan, South Korea, Australia, New Zealand, the US, and the EU). This could be the first step towards long-term regional economic integration, potentially resulting in a new pan-Asian free trade agreement.

Table 8. Pros and cons of the ‘Extensive cooperation and coordination’

	Pros	Cons
Donors (banks and main shareholders)	Reduced operational costs; proving international criticism to be false; incentive for further integration	Constraints on foreign policy options due to the perceived conflicting interests of banks and politicians; possible loss of focus in financial support for long term geo-economic projects
Recipients	Effective and coordinated assistance; possible further benefits from regional integration and stability	Potential conditionality requirements
Non-regional parties	Opportunity to develop interregional dialogue as a counterbalance to the dominance of any single nation	Long-term risks related to the shift in the global economy (dynamic empowerment of various Asian economies)

Source: based on author’s estimation.

This optimistic, and perhaps idealistic, scenario could become a reality as a consequence of:

- banks’ agreement of shared interests and strategic goals – this consensus would be reached through labourious negotiations aimed at maximizing the benefits to the region as a whole;
- the recognition of cooperation as a form of anti-crisis regional response, thereby avoiding wasteful competition – initiated as a response to substantial financial problems, not only of aid recipients, but also the main sponsors of both institutions. Extensive cooperation between the ADB and AIIB, in this case, would be out of necessity rather than choice, in order to save the Asian economy;
- the elimination of major political tensions between banks’ main shareholders – should be considered as a *sine qua non* condition of this scenario.

3. Reality check

Serious doubts were expressed with the very first proposals of setting up a new regional development institution in Asia. To its doubters, the AIIB was seen as a potential rival for the existing financial institutions:

the World Bank and ADB. Western criticisms were based on concerns as to whether or not the AIIB would follow international standards, particularly on environmental and social safeguards. Concerns were also expressed on the governance of the bank – the possibility of Chinese domination and concentration on Beijing strategic goals, the effectiveness of anti-corruption measures and transparency of decision making. The absence of conditionality to loans offered by the AIIB is perceived as a threat to the existing neoliberal practices of the World Bank practices et al, something clearly at odds with the Washington Consensus. The unofficial diplomatic campaign – led by the US and Japan – concentrated on generating fears over the geopolitical effects of the AIIB's establishment: presenting the organization as an instrument of Chinese soft power and being a part of a broader strategy of countering US 'leadership' in the region. It was even suggested that the AIIB's investments in ports and harbours could potentially be used to expand Chinese naval presence in different parts of Asia. The initial goal of the campaign was to discredit the very idea of setting up the bank, later becoming an exercise of discouraging the West's international partners from accessing the bank. Washington and Tokyo failed to achieve any of these targets (Nelson 2015, pp. 17–18; Qing 2015; S.R. 2014; Bastin 2015; Domínguez 2014; Sobolewski & Lange 2015; Asia News Network 2015; Watt, Lewis & Branigan 2015).

As a response to the criticism the AIIB initiated its own media and diplomatic campaigns and took the more important step of clarifying its various social and economic policies: Environmental and Social Policy, Operational Policy on Financing, General Conditions for Sovereign-Backed Loans, Procurement Policy, and Policy on Prohibited Practices. The implementation of these regulations should ensure the high standards and quality of AIIB's operations and "ensure that the Bank does business with trustworthy parties who adhere to the highest integrity standards." According to Sir Danny Alexander, the AIIB's Vice-President, the "management of the bank will ensure that all those policies are implemented in detail on each and every project." A similar attitude was expressed by Jin Liqun, the bank's president, who, speaking on the possibility of co-financing projects with established donors, said that the criteria for cooperation with the AIIB must include gains for local people and adherence to the highest possible social and environmental standards. The adoption of policies close to those of the World Bank and the ADB helped the AIIB to counter initial criticisms and to convince various governments to join (AIIB's website; Asian Infrastructure Investment

Bank 2016a; 2016c, 2016d; 2016e; 2016f; 2016g; Lean 2016a; Mainichi Japan 2015).

From the stated aims of the AIIB and ADB there exist no clear conflict of interests which should, theoretically, result in fruitful cooperation. The AIIB's website states that "The Bank's foundation is built on the lessons of experience of existing MDBs [Multilateral Development Banks] and the private sector. [...] AIIB will complement and cooperate with the existing MDBs to jointly address the daunting infrastructure needs in Asia. The Bank's openness and inclusiveness reflect its multilateral nature" (AIIB's website).

This pro-cooperation attitude has also been expressed by both banks' presidents. The ADB's leader, Takehiko Nakao, said that the "ADB has been working closely with AIIB throughout its establishment process. We will further strengthen our cooperation in promoting sustainable growth, reducing poverty, and combating climate change in the region." His AIIB counterpart, Liqun Jin, declared that the "AIIB looks forward to deepening our already strong relationship and expanding our collaboration as we seek to address the significant infrastructure financing needs in the Asia region." In his words both organization believe that they "are complementary to each other and we will be working together in the future" in reality, the optimistic language used for 'future cooperation' is a redescription of the existing, ongoing relationship between the two (ADB's website; Xinhua News Agency 2016a; Mainichi Japan 2015).

Even before the AIIB was up and running, the ADB had already expressed its support for its new multilateral partner. The ADB waited until the time the Articles of Agreement were ready to be signed and the deadline for submission of membership applications had passed, before offering its services. It was well known that the AIIB would be 'starting its journey' with several ADB members, including various EU members, South Korea, and Australia, on board. ADB President Takehiko Nakao and AIIB President-Designate Liqun Jin met twice in 2015 to discuss possible frameworks for cooperation. As a result of these meetings the ADB helped the AIIB Multilateral Interim Secretariat to create operational policies, especially those of procurement and environmental and social safeguards. It is said that the ADB was encouraged to offer its assistance to the AIIB by the US government, as it was a chance to shape the new institution without US or Japanese membership. This wise strategy had to be introduced as an alternative to the failure of US-Japanese diplomatic attempts to suppress the AIIB's idea before it achieved international legitimization. So far, this

new attitude seems to be working well. The ADB offered its expertise to help the AIIB design better demand driven services to meet the great need in various sectors of the Asian economies. This sort of arrangement could build a truly win-win cooperation, with both banks agreeing to identify projects for possible co-financing, with special attention being given to the sectors of: transport, energy, telecommunications, rural and agriculture development, water, urban development, and environmental protection. On the May 2, 2016, the ADB and the AIIB presidents signed a memorandum of understanding which creates a legal foundation for joint financing of projects. The first co-financed investment is "Pakistan's M4 highway project, a 64-kilometer stretch of motorway connecting Shorkot to Khanewal in Punjab Province." The ADB will play the role of lead co-financer, responsible for the project's administration, giving the organization more opportunity to influence its new counterpart (ADB's website; Xinhua News Agency 2016a; AIIB's website; China Daily 2016; Lean 2016b).

Despite Chinese dominance and US/Japanese fears behind their attempts to suppress its birth, the AIIB should not be strictly perceived as an instrument of Chinese foreign policy. As a multilateral financial institution, its agenda cannot be restricted to the interests of one country, as can be seen in bilateral aid agencies. The bank is not limited to the 'One Belt, One Road' projects, or even formally bound to this investment strategy. The first five revealed projects are totally independent from this initiative (Mainichi Japan 2015; AIIB's website).

Finally, the profile of the AIIB's decision-makers should also be considered. The bank's top officials, including its president, previously served as senior executives at: the ADB, World Bank, European Bank for Reconstruction and Development, Korea Development Bank, African Development Bank, and various national governmental institutions. All the experience of the senior management officers and their international contacts suggest that the AIIB, at least within the next couple of years, should lean towards cooperation with other development agencies, including the ADB, instead pursuing the costly rivalry (AIIB's website; Berwin, Leighton & Paisner 2016).

The arguments presented above show that while some cooperation between the ADB and the AIIB is possible and even quite probable, the likelihood of the banks managing to achieve the utopian outcome of the scenario expressed as 'Extensive cooperation and coordination' remains very low. Although confrontation is not expected in the short

term, we should expect some competition developing over the longer term. The scenario based on technical dialogue and cooperation looks to be the most likely outcome.

Table 9. Scenarios' plausibility test

Scenarios	Plausibility
Sino-Japanese full scale rivalry via AIIB-ADB confrontation	very unlikely
Non-cooperation with some competition	likely
Neutral coexistence	even
Sub-regional or thematic specialization	even
Limited technical dialogue and cooperation	very likely
Extensive cooperation and coordination	very unlikely

Source: based on author's estimation.

Conclusions

As the analysis demonstrates the ADB and the AIIB are based on the same models of management and governance. This involves a tripartite governing format, both institutions consisting of a board of governors – board of directors, and a senior management team. The international character of both banks is represented not only through its board's composition, but also through the number and variety of nations holding shares issued by both institutions. This is also evidenced by the inability of any single shareholder to impose its unilateral decision to dominate the whole organization. Lots of Western criticism was focused on the PRC's de facto veto power within the AIIB, perhaps ironic when we consider the existing power of Japan and the US to block almost any decision of the ADB. Both organizations share a common interest in terms of their statutory goals and focus areas. The analysis found some significant areas in which these organizations differ. The most obvious of these would be: the limited experience of the AIIB. Obvious disparity in financial capabilities and clear divergence in their member countries. The US and Japan displayed a clear lack of interest in joining the AIIB, while the BRICS, and various Middle Eastern countries, were easily persuaded to come on board. The organizational model shared by both banks could potentially give rise to some form of natural competition between them. At the same time, these structural similarities may also allow clearer positive dialogue

between top decision makers, who will all undoubtedly have extensive experience in multilateral negotiations, and so effectively will be able to 'speak the same language', thereby avoiding more obvious obstacles.

Ultimately, the future of ADB-AIIB relations regarding any strategy for ongoing collaboration will be determined by their main shareholders. Only time will tell whether the relationship, now still in its infancy, will be of a hostile, neutral, or cooperative nature.

Not only is cooperation between the ADB and AIIB possible, but is in fact an ongoing reality. While clear objectives have been decided upon to be of mutual benefit to the banks (win-win), it is essential not to forget the *raison d'être* of these institutions which should be the improvement in living standards of the citizens of borrowing nations. For this reason, every effort to advance cooperation and quality of services to achieve a truly win-win-win outcome is vital.

While the history of ADB-AIIB relations may be very short, it has already shown great promise. In spite of their initial anxieties, the ADB has assisted its new counterpart during its setting up period. Their relationship being further reinforced by the signing of a memorandum of understanding that has already produced a joint investment project. Taking into consideration the fact that they are multilateral organizations, obviously governed in a different way than bilateral agencies, we can predict that, out of six logically possible situations, that of the 'Limited technical dialogue and cooperation' is the most plausible. The hyper-pessimistic, 'Sino-Japanese full scale rivalry via AIIB-ADB confrontation' and the ultra-optimistic, 'Extensive cooperation and coordination', are found to be very unlikely, at least for today. Putting idealism aside, we cannot totally rule out some form of competition between these two banks, as they follow the interests of their main shareholders, including regional powers.

Most likely the ADB and the AIIB will engage in technical dialogue and cooperate on an operational level, however some degree of competition on a strategic level should also be expected. This would mean acting together in cases of single projects, maintaining a flow of useful information and know how, as well as co-hosting international conferences and workshops. Areas where serious competition will prove problematic are: requests for financial assistance to nations with membership of both banks, and/or either bank attempting to wield its influence to promote their different visions of regional economy or grand geo-economic initiatives.

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MATEUSZ SMOLAGA, Ph.D. is a lecturer at the Institute of Political Science and European Studies, University of Szczecin, where he teaches various courses in the field of international relations. Since completing his studies at the Institute of International Relations, University of Warsaw, his research has focused on the issue of international development, especially activities of emerging donors of development assistance, and South–South cooperation.